

# TENNESSEE REGULATORY AUTHORITY



Pat Miller, Chairman  
Deborah Taylor Tate, Director  
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Ron Jones, Director

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460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

January 14, 2005

Mr. Donald L. Scholes,  
Counsel for Lynwood Utility Corporation  
Branstetter, Kilgore, Stranch & Jennings  
227 Second Avenue, North  
Fourth Floor  
Nashville, Tennessee 37201-1631

Re: Petition of Lynwood Utility Corporation for Approval of Transfer and Control Nunc Pro Tunc. Docket No. 04-00360

Dear Mr. Scholes:

In order to more fully analyze the above-referenced transaction, the Staff of the Tennessee Regulatory Authority will require additional information. Please provide the information requested below by January 24, 2005. Consider this as Data Request No. 2.

The Tennessee Regulatory Authority must approve any debt issues, loans, etc. according to Tennessee Code Annotated § 65-4-109 which states that:

No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the authority for such proposed issue. It shall be the duty of the authority after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the authority.

The Promissory Note attached to your response to Staff Data Request No. 1, Question No. 2 is technically for a period of less than a year. However, it is renewable at the discretion of the owners of Lynwood Utility Corporation ("Lynwood"). It also remains on the balance sheet as a liability. Therefore we are concerned about the debt being issued without pre-approval by the TRA. Please provide responses to the following questions.

1. While the Staff realizes that TDEC had sued Lynwood for failure to comply with the sewage treatment codes, why was the Authority not informed of the predicament or contacted for pre-approval of the loan?
2. The Promissory Note is for \$1,250,000. Is that the amount recorded on the balance sheet as a liability or was it \$980,000 that the petition states was used for upgrades?

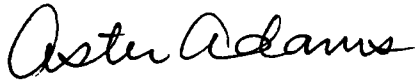
Telephone (615) 741-2904, Toll-Free 1-800-342-8359, Facsimile (615) 741-5015  
www.state.tn.us/tra

3. If \$980,000 was recorded, what was done with the difference between \$1,250,000 and the \$980,000 that the petition maintains was used for system improvements?
4. Provide a current audited balance sheet and income statement for Lynwood Utility Corporation.
5. Are the new owners of Lynwood aware that they are required to get approval for the purchase of the utility? Are they aware that Lynwood is a public utility subject to public utility regulation? Please explain in detail.

If you have any questions or comments, please call David McClanahan at 615-741-2904 ext. 177. Please send the original and thirteen copies of your responses to:

Mr. Sharla Dillon, Docket Room Manager  
460 James Robertson Parkway  
Nashville, TN. 37243-0505

Sincerely,



Aster Adams, Chief  
Competitive Markets & Policy Division

C: Mr. Pat Miller, Chairman  
Ms Sharla Dillon

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